

not feasible to guarantee that expenditures for all programmes will precisely match budgeted amounts, and this is one of the reasons for designating only a limited number of Priority Poverty Expenditures for special treatment. If revenue for these programmes from one source is less than anticipated, the shortfall should be made up by re-allocating funds to the programmes from other sources. If anything that can't be foreseen should prevent this, Government should obtain prior approval from Parliament before changing levels of funding.

Recommendation 7: Guarantee that total funds actually spent on programmes designated as Priority Poverty Expenditures will not be less than the amount budgeted for them from all sources, and seek prior approval from Parliament for any change in funding for Priority Poverty Expenditures.

2.7.2 It is difficult to predict when emergencies will arise, but it is safe to say they will arise. The Committee believes the budget should include a contingency fund for dealing with emergencies. Steps must also be taken in advance to minimise consequences of natural occurrences, such as floods.

3. Donor Debt Relief as a Heavily Indebted Poor Country (HIPC)

3.0.1 The World Bank and IMF proposed the HIPC programme in 1997 because poor countries like Malawi cannot service large external debts without neglecting other priorities. Since then the programme has been enhanced to make it easier for poor countries to qualify. Other donors have also agreed to participate.

3.0.2 Forgiveness and restructuring of debt payments makes it possible to reallocate substantial funds to programmes with the greatest impact on poverty. Funds freed by debt relief are used for these programmes, but they are not the only source of funds. Countries accepted into the HIPC programme must meet rigorous conditions to continue to qualify for debt relief.

3.1 The HIPC Process and the Amount of HIPC Debt Relief

3.1.1 Malawi was accepted into the HIPC programme on an interim basis in December 2000, when donors accepted an interim PRSP and Malawi met other conditions for reaching the “decision point”. Conditions for final acceptance

into the HIPC programme, the “completion point”, are outlined in the Decision Point Document (See Annex E). Donors may reinstate the debt payments forgiven during the interim period if Malawi fails to reach the completion point for final acceptance into the programme.

3.1.2 Conditions for reaching the completion point include a first year progress report on implementation of the final PRSP, progress in macroeconomic performance, and implementation of agreed measures to reduce poverty and accelerate growth. In other words, Government will have to demonstrate commitment to macroeconomic reform and poverty reduction before debt relief is considered irrevocable. The next big step will be completing the final PRSP by September and having it accepted by donors by the end of the calendar year.

3.1.3 The HIPC programme will relieve Malawi from about 44% of its debt payments to the World Bank Group of donors (multilateral donors). As of late 1999, 74% of Malawi’s debt was owed to the World Bank Group. A number of bilateral donors are willing to grant comparable debt relief. Japan, France, the United Kingdom, and Germany have already agreed to forgive and restructure substantial amounts of the debt owed to them.

3.1.4 The World Bank Group will forego debt payments amounting to US\$14.7 million during the 2000/2001 financial year. Some (or all) of these funds have already been made available for alternative uses. The figure will more than double to US\$32.5 million in 2001/2002 and US\$44.2 million in 2002/2003. Adding bilateral donors, total debt relief will average about US\$50 million per year during the period 2000 to 2019. To put these figures in context, from 1997 to 1999 Malawi spent an average of US\$94 million on payments on foreign debt.

3.1.4 HIPC debt relief of US\$14.7 million for 2000/2001 is about 4% of the estimated expenditures for the year exclusive of debt service. Overall, HIPC debt relief is expected to enable Malawi to increase future spending on programmes that are priorities for poverty reduction by 10% to 14%.

3.2 Managing HIPC Funds

3.2.1 Debt relief must be used exclusively to fund programmes that are priorities for poverty reduction, and must be completely accounted for. To get to the decision point in December 2000, Government had to agree on likely uses of funds freed by debt relief for the first three years of the HIPC programme. (See Annex E for “indicative” uses in 2000/2001 through 2002/2003.)

3.2.2 For the years 2001 onwards, the precise uses and amounts need not be exactly as agreed last year. The Committee cites these amounts in various places in this report to provide information on what the multilateral donore and Government had in mind for uses of HIPC funds. The actual uses will be for priorities identified in the PRSP Findings to Date and the final PRSP. In most cases more will be required for the Priority Poverty Expenditures than will be available from HIPC resources. The Committee has asked for the amount of HIPC funds disbursed during the current year, and uses of these funds, but has not yet received this information.

3.2.3 To facilitate monitoring of HIPC funds, quarterly reports with the following information will be needed:

- Amounts and uses of all funds freed by HIPC debt relief for the previous reporting period and year to date, and projections for the next reporting period and the balance of the year
- Explanations of all variances from estimates for uses of HIPC funds in the approved budget, and measures to be taken to guarantee spending as budgeted by the end of the year

Recommendation 8: Include in the budget a complete accounting of all uses of HIPC funds for 2000/2001, and commit to use HIPC funds exclusively for designated Priority Poverty Expenditures. Commit to provide quarterly reports on uses of HIPC funds as outlined in Section 3.2.3.

4. The Poverty Reduction Strategy Paper (PRSP)

4.1 Important Features of the PRSP Process

4.1.1 Government is expected to choose the programmes that are likely to have the greatest impact on poverty based on broad consultations with stakeholders. Stakeholders expect to be partners with Government in selecting the programmes. The programmes designated as Priority Poverty Expenditures will be noted in the final PRSP. Progress on the poverty reduction strategy will be reviewed annually, and the PRSP itself will be updated every three years, based on comprehensive review and consultations.